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ENERGY MARKET REPORT FOR OCTOBER 24, 2006

OPEC President Edmund Daukoru said he believed a fall in oil prices following OPEC's decision to cut its production by 1.2 million bpd was partly due to market reaction to members' moves to increase capacity. He estimated OPEC's idle capacity at 4-5 million bpd. He dismissed comments from analysts that the market did not believe OPEC would comply with its 1.2 million bpd output cut.

On Monday, President George W. Bush warned OPEC that high oil prices could wreck economies and reduce demand for their products if it followed through on a planned output cut intended to

Market Watch

Analysts stated that OPEC's output cut may actually cut prices by restoring a bigger margin of spare capacity. OPEC's expected output cuts coupled with cuts by several Asian refiners would give the industry its largest idle reserve in about three years, a cushion that some analysts say may only increase in coming years. OPEC's spare production capacity stood at 1.4 million bpd a year ago and increased to 2.6 million bpd due to fresh investment. OPEC's cuts, if applied in full, would expand it further to 3.8 million bpd or 4.3% of demand.

Private weather forecaster WSI Corp stated that the US Northeast would face colder than normal temperatures during the early winter period of November-January. Several government and private forecasters were forecasting normal or colder than normal weather for the Northeast through January.

Analysts stated that US heating oil inventories could remain high following a fall in the premium on gas oil eroded the value of shipping the product to Europe. Heating oil exports increased to a 10 year high in July due to a 10 cent/gallon discount on NYMEX heating oil futures from the equivalent ICE gas oil futures. However the difference between the NYMEX heating oil futures and ICE gas oil futures has narrowed to less than 8 cents/gallon for most of October, cutting shipping and reducing the potential for arbitrage trading. A price differential of 10 cents/gallon is said to encourage heavy export trade to Europe. Analysts stated that the fall in prices could aid US stockpiles of heating oil and weigh on crude oil prices.

The President of the Shanghai Futures Exchange said the exchange planned to launch futures for crude oil and specialty steel products as soon as possible but gave no timeframe. He said the launch of a crude oil futures contract would help promote China's energy security and help reform the pricing system for the country's domestic oil trade.

According to a survey by Zogby International, Venezuela's President Hugo Chavez has a 35 point lead ahead of the December 3 presidential election. Venezuela's President held 59% of Venezuelan voters' support while the governor of the western state of Zulia, Manuel Rosales, had 24% of the vote.

increase prices. He also stated that despite the lower oil prices, the US still needed to push for more supplies from renewable sources such as ethanol.

US Energy Secretary Samuel Bodman said he assumed OPEC would implement the pledge to cut total production by 1.2 million bpd. He said he was disappointed by OPEC's decision and added that he was hopeful OPEC would keep the market well supplied.

The top US commander in Iraq, Gen. George Casey said Iraq forces should be able to take full control of security in the country within the next 12-18 months with minimal support. US Ambassador Zalmay Khalilzad and the top US commander in Iraq denounced Iran and Syria for trying to undermine the US effort to stabilize the country. The US Ambassador outlined a number of measures against which Iraqi progress would be measured, including devising a way to share the country's oil wealth among all religious and ethnic groups. He also said the government should transform the committee that was formed to insure Saddam loyalists held no important national positions into an organization that would seek to reconcile differences.

Separately, Russia's Foreign Minister warned Iraq could split into different states if its ethnic groups failed to unite. Meanwhile, Iran's Supreme Leader Ayatollah Ali Khamenei warned Muslims against US plots to divide the Middle East for Israel's benefit. He also called for an end to sectarian conflict in Iraq. He said the Iraq people should do everything to avoid sectarian conflict.

The US, France and the UK have been pushing for UN Security Council bans on sales of missile and nuclear technology to Iran and an end to most technical aid programs from the IAEA. UN diplomats also stated that the proposal would also commit UN member countries to deny entry to Iranian officials involved in developing the country's missile or nuclear program.

Refinery News

According to a report filed with the Texas Commission on Environmental Quality, BP was beginning a start up Tuesday on equipment associated with a fluid catalytic cracking unit at its Texas City, Texas refinery. Meanwhile, its 129,000 bpd fluid catalytic cracker No. 3 was restarted during the weekend following about seven days of unplanned maintenance on associated equipment. A source familiar with operations said BP's Texas City refinery may reach crude oil throughput of about 70% of its 463,000 bpd capacity by the end of the year. Its third quarter throughput rate averaged 247,000 bpd.

Exxon Mobil Corp said a malfunction in a hydrocracker at its 150,000 bpd Torrance, California refinery would have a minor impact on output from the refinery. The hydrocracker malfunctioned early on Tuesday

Neste Oil said it expected its new diesel production line at its Porvoo refinery to start up in the first quarter of 2007. It said it expected and was prepared for some production problems during the first year of operation at the new line in Porvoo.

Russia's Emergency Minister said it has shut a pipeline in the Urals following an oil spill that polluted a nearby river. It said the affected part of the pipeline was shut. The ministry spokesman declined to say how long the affected section was but said it was part of the Tuimazy-Omsk-Novosibirsk trunk pipeline, running from Baskortostan to East Siberia. Russia's Rosneft and Gazprom Neft, which are among the firms using the pipeline, said their operations were not affected by the leak.

NYMEX Petroleum Options Most Active Strikes for October 24, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	11	6	C	1.54	10/26/2006	0.02	217	46.14
GO	11	6	C	1.6	10/26/2006	0.0039	108	48.60
GO	11	6	P	1.98	10/26/2006	0.442	75	127.97
GO	11	6	P	1.5	10/26/2006	0.0077	51	48.30
LO	1	7	C	63	12/14/2006	1.78	3,111	28.71
LO	12	7	C	100	11/13/2007	0.56	3,106	25.76
LO	1	7	C	61	12/14/2006	2.62	2,605	28.74
LO	12	6	C	70	11/14/2006	0.04	2,472	33.79
LO	12	6	P	50	11/14/2006	0.05	2,201	37.14
LO	4	7	P	45	03/15/2007	0.2	2,100	33.13
LO	12	6	C	60	11/14/2006	1.48	2,077	31.41
LO	12	7	P	60	11/13/2007	3.58	2,065	26.34
LO	2	7	C	66	01/17/2007	1.81	2,006	27.59
LO	2	7	C	62	01/17/2007	3.36	2,001	27.67
LO	12	6	P	79	11/14/2006	19.65	2,000	60.46
LO	12	6	P	79.5	11/14/2006	20.15	2,000	61.79
LO	1	7	P	55	12/14/2006	0.63	1,965	30.43
LO	2	7	C	70	01/17/2007	0.89	1,604	27.57
LO	2	7	C	63	01/17/2007	2.91	1,504	27.69
LO	12	6	C	59	11/14/2006	1.95	1,406	31.42
LO	12	6	C	62	11/14/2006	0.79	1,388	31.36
LO	12	6	C	63	11/14/2006	0.56	1,160	31.44
LO	3	7	C	63	02/14/2007	3.72	1,155	26.95
LO	6	7	P	60	05/17/2007	2.87	1,100	27.34
LO	12	6	C	64	11/14/2006	0.39	1,047	31.58
LO	6	7	C	66	05/17/2007	4.39	1,000	26.12
LO	6	7	C	50	05/17/2007	15.48	1,000	35.05
LO	12	6	P	49	11/14/2006	0.03	1,000	37.76
LO	6	7	P	50	05/17/2007	0.79	1,000	30.62
LO	12	7	P	55	11/13/2007	2.28	1,000	27.69
OB	6	7	C	2	05/25/2007	0.111	525	31.49
OB	6	7	C	2.12	05/25/2007	0.0854	500	32.84
OB	1	7	C	1.65	12/26/2006	0.0621	150	35.41
OB	11	6	P	1.85	10/26/2006	0.3178	120	88.59
OB	12	6	P	1.8	11/27/2006	0.2702	120	42.84
OB	1	7	C	1.7	12/26/2006	0.0476	100	35.88
OB	12	6	P	1.82	11/27/2006	0.2885	100	43.30
OB	11	6	P	1.92	10/26/2006	0.3878	100	118.13
OH	6	7	C	2.15	05/25/2007	0.0509	750	29.90
OH	6	7	C	2	05/25/2007	0.0783	750	28.92
OH	4	7	C	1.8	03/27/2007	0.1248	100	28.03
OH	12	6	P	1.9	11/27/2006	0.1871	85	34.53
OH	3	7	C	1.8	02/23/2007	0.1215	75	29.49
OH	3	7	P	1.8	02/23/2007	0.1169	75	29.49

The International Sugar Organization said world fuel ethanol consumption could increase to 80 billion liters in Brazil, the US, Japan, China, India, Thailand and the EU by 2010, up from 33.7 billion liters consumed in 2005. Brazil is expected to lead consumption at 27 billion liters by 2010, up from 16.1 billion liters in 2005 while the US is expected to consume 25 billion liters of ethanol by 2010, up from 14.7 billion in 2005. Meanwhile, Asian countries are expected to increase their ethanol use, with consumption in Japan, China and India pegged at 6 billion liters, 5 billion liters and 1.3 billion liters by 2010, respectively. The EU is also expected to increase its ethanol consumption from 1.5 billion liters in 2005 to 14 billion liters by 2010.

Brazil's Datagro said the country's ethanol exports prices should fall in 2007 to an average \$538.46/cubic meter as US and Brazilian ethanol output increases and if world oil prices stabilize. Average 2006 international free on board ethanol prices are expected to increase to \$655.06/cubic meter, or 1,000 liters, from an average \$452.83 in 2005.

Datagro also stated that Brazil has sufficient ethanol stocks to guarantee supplies if the gasoline blend was increased to 25% from 20% on November 1. It forecast that 700 million liters of ethanol would be produced by the center south before May 1, 2007. Stocks are expected to total 1.08 billion liters or

about one month's consumption. An increase in the ethanol blend to 25% from 20% would increase demand by 540 million liters and cut stocks to 537 million liters by May 1.

Production News

Statoil said it was resuming production at its Snorre A oil platform in the North Sea after a halt caused by problems over lifeboats. It is expected to reach full output soon. Production was halted at Snorre A on October 13, shutting in about 200,000 bpd including output from the linked Vigdis field after safety officials said lifeboat systems were inadequate and ordered the closure of the field. Norway's Petroleum Safety Authority ordered Statoil to halt production at Snorre and Royal Dutch Shell to halt production at its Draugen field due to a lack of approved lifeboats. Shell was allowed on October 16 to resume production at the 80,000 boe/d Draugen field. Meanwhile, Statoil also resumed production at its 140,000 bpd Heidrun oil field on Monday after it was shut on October 18 due to bad weather.

Iraq's Oil Minister Hussain al-Shahristani said he hoped to announce the first round of bidding for oil projects soon after an oil and gas law is passed by the end of the year. He said a number of international oil companies have shown interest in oil projects in Iraq. He said Iraq was aiming to increase its crude oil production to 3.5 million bpd from an estimated 3 million bpd this year and 4 million bpd by 2010 then to 6 million bpd in 2012-2013 by developing new oilfields jointly with international oil companies. He also stated that he had been talking with the Iraqi Defense Ministry about improving security at the country's oil pipelines to protect them from sabotage attacks. Iraq would be able to restore as much as 400,000 bpd of oil production by improving pipeline security.

The Abu Dhabi National Oil Co notified its lifters that it would cut all crude exports by about 5% starting in November. The UAE is expected to reduce its production by about 100,000 bpd under the OPEC agreement to cut total production by 1.2 million bpd.

Russia's Natural Resources Minister Yury Trutnev said the Kharyaga field that France's Total has been developing had significant violations. However he stated that Total was not in immediate danger of losing licenses to develop the field.

The Terra Nova oilfield development in Canada is due to start up imminently following an extended turnaround. The field has a capacity of 110,000-120,000 bpd.

Market Commentary

The oil market opened 26 cents lower at a low of 58.55 as it remained pressured amid the doubts that OPEC would fully comply with its decision to cut its output by 1.2 million bpd. The market however bounced off the low and never looked back. The market rallied to 59.45, where it held some resistance. However the market found some further buying which pushed the market to a high of 59.70 late in the session. It traded in a range from 59.00 to 59.50 ahead of the close and settled up 54 cents at 59.35. Volume in the crude market was lighter on Tuesday, with only 97,000 lots booked on the day. The heating oil market settled up 2.62 cents at 169.52 as it positioned itself ahead of the weekly petroleum stock reports, which are expected to show draws in distillate stocks of more than 1 million barrels. The market also opened at its low of 167.20 and quickly rallied to a high of 170.90. The market seemed to be well supported by the below normal temperatures expected in the Northeast in the short term. Also, a private weather forecast by WSI said it expected below normal temperatures in November through January. The heating oil market extended its gains to 4 cents as it posted a high of 170.90 late in the session before it retraced some of late gains ahead of the close. Meanwhile, the gasoline market gapped higher from 147.50 to 148.00 and never looked back. The market extended its gains to 7.15 cents as it rallied to a high of 154.30 ahead of the close. It settled up 6.65 cents at 153.80. Similarly, the RBOB market opened at a low of 150.50 and quickly bounced off its low and rallied to a high of 154.50. The market remained rangebound ahead of the close and settled up 2.78

cents at 153.22. Volumes in the product markets remained light with 37,000 lots booked in the heating oil market, 11,000 lots in the gasoline market and 23,000 lots in the RBOB market.

The oil market on Wednesday will seek further direction from the weekly petroleum stocks reports, which are expected

to show builds of about 2.5 million barrels in crude stocks and draws in product stocks of up to 1.5 million barrels in

		Levels	Explanation
CL	Resistance	60.40, 61.00, 61.25, 61.90	Previous highs
	59.35, up 54 cents	59.70	Tuesday's high
	Support	59.00, 58.55	Tuesday's low
		58.15, 56.55	Previous low
HO	Resistance	172.50, 176.80	Previous highs
	169.52, up 2.62 cents	170.90	Tuesday's high
	Support	168.50, 167.20	Tuesday's low
		165.30, 163.60, 163.20	Previous lows
RB	Resistance	154.80, 155.00, 156.50, 157.00	Previous highs
	153.22, up 2.78 cents	154.50	Tuesday's high
	Support	152.25, 150.50	Tuesday's low
		147.50, 147.00	Previous lows

distillate stocks and up to 1 million barrels in gasoline stocks. The market will also seek further confirmation that other OPEC members are cutting their production in line with their decision to cut output by a total of 1.2 million bpd. If the market continues to see draws in product stocks, the market is seen holding its support at its low of 58.55 followed by 58.15. The market is however seen finding resistance at a high of 59.70 followed by 60.40, 61.00, 61.25 and 61.90.